



PI Industries Limited Conference Call Transcript August 14, 2017

Moderator

Ladies and gentlemen, good day and welcome to the Q1 FY18 Earnings Conference Call of PI Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you, and over to you, sir.

Nishid Solanki

Thank you. Good morning everyone and welcome to PI Industries Q1 FY18 earnings conference call. Today, we have with us senior members of the management team, including Mr. Mayank Singhal, Managing Director and CEO; Jayashree Satagopan, Chief Financial Officer. As always, we will begin the call with opening remarks from the management, following which, we will open the forum for question and answer. Before we begin, I would like to highlight that certain statements made in today's conference call maybe forward-looking in nature and a disclaimer to this effect has been included in the results release sent to you earlier. The company does not undertake to update them publicly.

I would now request Mr. Mayank Singhal to share his thoughts on the performance and discuss the opportunities that lies ahead. Thank you and over to you, sir.

Mayank Singhal

Thank you. I am glad to share my thoughts on PI's strategic and operating progress during the reporting period. We have delivered revenues of Rs. 585 crore during Q1 together with healthy margins of 22.3% despite the short term disruption in the domestic business on account of GST transition and softer exports in line with our plan. The underlying growth trends in the business remains strong backed by our new product pipeline, manifold increase in the new enquiries for exports and the strategic alliances with our global innovator partners.

As a leading company in the business, we are leveraging our integrated capabilities across the agri-value chain with a partnership approach. The recent joint venture with Kumiai stands a testimony to PI's strategic approach of deepening our partnerships. We believe in the future, this will further strengthen our leadership position in the market and add to our already attractive pipeline.

The second partnership that we announced with BASF for four new generation molecules which is well under way. During the present Kharif season, we introduced 'ELITE' a maize herbicide, and recently launched 2 rice fungicides, 'HEADER' and 'FENDER' which further strengthens the already strong leadership position in the rice market.

Our JV with Mitsui Chemicals to provide registration services is also progressing per plan and will further strengthen our position and bring innovative solutions in India to enhance farm productivity.

Growth momentum of our exports is expected to be normalized starting from the 2nd half of the fiscal year in line with recovery of the global ag-chem. Our order book continues to grow, our investments in exploring new enquiries have grown manifold commensurate with the level of activity to commercialize several early stage molecules of our global innovator partners.

With a strong visibility of growth backed by a strong order book position, great pipeline, PI further continues to strengthen its position as technology led company. Technological progress and innovation provide long-term sustainability to growth and more importantly a platform to foster deep and mutually beneficial relationships with our customers.

Our state of the art 125,000 sft. Research and Development Centre at Udaipur, is now fully operational backed by an excellent Green House facility for biological testing, Knowledge Management with a strong IT infrastructure for data and information management supported by over 250 scientists and researchers. The focus is on augmenting our R&D capabilities for product development, new chemistries and next generation process technologies. What we are investing in today will set the stage for a better tomorrow. In the long term, technology will be the key differentiator at PI and the skills and infrastructure that we are creating at present will be our enablers of growth.

The outlook for the rest of the year is positive where we are seeking to grow into new exciting areas backed by our strong financials, R&D capabilities, product pipeline and our collaborations, partnerships and alliances.

I would like to now call upon our CFO – Jayashree to take forward the discussions. Thank you.

Jayashree Satagopan Thank you Mayank. Good morning everyone and once again welcome to PI Industries' earnings conference call. I will take you through the financial performance of the company for the quarter ended June 30, 2017.

In the first quarter of fiscal year 2018, our total revenues stood at Rs. 585 crore where domestic revenues saw moderation despite overall normalized monsoon and increased acreages of key crops due to channel de-stocking on account of transition to GST. Exports have been softer and in line with planned supply schedules from our clients.

Consequently, EBITDA stood at Rs. 130 crore with margin of 22.3% despite one offs. Profit After Tax stood at Rs. 100 crore in-line with the operating performance of the Company. Effective Tax Rate for the period stood at 18%



PI Industries Ltd

Coming to our Balance Sheet position, Net Debt to Equity position stood at 0.05 during the period. The business is well placed to fund growth from its internal accruals. Stable performance has further augmented our cash flow accretion.

With that, I would now request the moderator to open the forum for question and answers. Thank you.

Moderator Thank you very much. We will now begin the question and answer session. The first question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari Sir, so in the light of the performance in the first quarter and whatever you are hearing from your clients on the export side, what could be the full year FY18 revenue growth for exports and the domestic business in FY18?

Mayank Singhal As we have estimated earlier, we should be around 10% growth rate.

Atul Tiwari In both domestic and exports?

Mayank Singhal Yes.

Atul Tiwari Okay. And sir, could you share the export and domestic revenue number for the quarter?

Jayashree Satagopan Yes. The domestic revenue is about Rs. 254 crore and export is Rs. 300 crore.

Atul Tiwari Okay. And for the year-ago quarter, ma'am 1Q FY17, the same numbers?

Jayashree Satagopan Yes, it was Rs. 299 for domestic and exports were Rs. 340 crore.

Moderator Thank you. We have the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar Just wanted to understand, on your opening remarks, you mentioned, you have an attractive pipeline and also about commercialization of innovative molecule. Just wanted to get a sense as to these new ones how does it contribute in terms of our export growth over the next one, two years and also your commentary on increasing inquiries. If you could broadly touch upon these points a bit more in granular detail, it will be very helpful.

Mayank Singhal So yes, you know that we have already a good order book position on some of these products, they will be on their own trajectory of growth. In the last quarter, we have seen a double-digit growth in the order inquiry evaluation for new generation molecules. Some of these will be commercializing by the end of this year, which we expect them to grow in the next coming years. So I mean, I don't have the exact numbers right now on the number of molecules and pipelines, but from our work, we are very excited to see that the numbers have grown manifold compared to we have ever seen in the past, and that has been purely because of our investments in the business development areas which we have been making very aggressively over the last year or so.

Vishnu Kumar So, some of these molecules are likely to start from fourth quarter, is that the right understanding?



Mayank Singhal Yes. They are going to start, and as you know very well for this business, they start in the first stage. Then the various stages of evaluation and then they get to commercial and then they peak up the volumes in each stage.

Vishnu Kumar Okay. Any big molecules that are on the large-scale I mean in terms of commercialization where we can expect good revenue growth potential I mean, I understand that some maybe at the early states, any large molecules that are likely to come up in the next year or 12 months-18 months?

Mayank Singhal That is fairly substantial and due to our confidentiality understanding of that customer, but yes, they are good. We cannot get down to the molecule and the details. They are pretty good and we are excited about it, that is what I can mention.

Vishnu Kumar Okay. And if you could just touch upon your pharma vertical, any developments on that side?

Mayank Singhal We are continuing to evaluate some of the opportunities in that space and we are looking at where we can have our adjacent business capabilities to be leveraged in that business and we are in the progress of evaluation of some.

Vishnu Kumar Earlier we were expecting to be close out one pilot plant, we were told that I mean, the earlier call, you have mentioned that we were in advance stage of due diligence. Anything that is kind of finalized on that front?

Mayank Singhal We are continuing on that front, yes.

Moderator Thank you. We have the next question from the line of Abhijit Akella from India Infoline. Please go ahead.

Abhijit Akella First, just a clarification regarding the revenue breakdown that you just gave. Did I get the numbers correctly ma'am, you said last year's quarter was Rs. 299 crore in domestic and Rs. 340 crore, are those the numbers? Because it doesn't add up to the Rs. 683 crore total that we had.

Jayashree Satagopan Okay the IndAS adjusted is Rs. 343 crore for domestic.

Abhijit Akella Okay. So when we look at this quarter's Rs. 254 crore, we should compare verses the Rs. 343 crore, right?

Jayashree Satagopan Rs. 343 crore verses Rs. 250 crore maybe.

Abhijit Akella Okay. And that seems like almost a 30% odd decline in the domestic.

Jayashree Satagopan No, hang on. It is Rs. 299 crore is what I had given, right?

Abhijit Akella For last year's 1Q, Rs. 254 crore this quarter versus you said Rs. 299 crore last year's 1Q.

Jayashree Satagopan Rs. 299 crore plus Rs. 340 crore for our exports.

Abhijit Akella Yes, it's Rs. 639 crore.



Jayashree Satagopan Yes.

Abhijit Akella The reported number was Rs. 683 crore.

Jayashree Satagopan So I will give you the IndAS adjusted numbers, last time Rs. 343 crore was the IndAS adjusted number. This time the equivalent number is Rs. 284.83 crore.

Mayank Singhal It will not give you the IndAS adjustment, that if you have the number, the last year is Rs. 298.95 crore versus Rs. 254 crore, for this year.

Jayashree Satagopan Because from the coming quarters onwards, we will be doing the net for the GST. So if you look to an apple-to-apple comparison, last year we were at Rs. 343.40 crore, that comparative for the current year will be Rs. 284.83 crore.

Abhijit Akella Second, just in your press release, you had alluded to some kind of one-offs in the EBITDA margins. If you could just give us a sense for what those were and how large those were?

Mayank Singhal Yes I wish as you would see the contribution margin increase and obviously the revenues are done, but at the end of the day, we have to engage certain consultants and we have invested in other areas for looking at strategy and operational efficiency leveraging..

Abhijit Akella Okay. So how large would that have been, I mean, is that a disproportionately large number for the quarter?

Mayank Singhal That is not disproportionate because as you would see that you had a large number of products to be launched and large expense has been incurred on brand launching from the marketing perspective, which has been done upfront for the new products , 4 to, 5 new products to be going into the market.

Abhijit Akella The margin decline that we saw this quarter of about 200 basis points year-over-year, is it fair to assume that it's roughly even across the two businesses or is it more concentrated in one of the businesses?

Mayank Singhal Well, it's fairly across, I would not say that we don't have an exact.....

Jayashree Satagopan No, this is fairly across both the businesses.

Abhijit Akella Okay, and just your order book position if you could please help us with the right now, where it stands?

Mayank Singhal We have about a Usd billion dollar plus order book position, on the Fine Chem plate now.

Abhijit Akella Okay, so that's basically stable quarter-over-quarter, I think last quarter also we had a similar number.

Mayank Singhal Yes, obviously because you are delivering some, some is adding and coming up with the new lines, will take that, yes.

Abhijit Akella Right and just one clarification here, given the slowdown we have seen in the patented products demand in the global market, because of the slowdown, have you started approaching customers to possibly work on say, proprietary generics as opposed to doing only patented products, would that make sense strategically for you?

Mayank Singhal We are working on some, as you would see, I said that we are working on some unique integrated technology platforms for chemistries and technologies, that could open the opportunities for both the patented and the non-patented, and I don't agree that the patent is temporary challenge for some products, not for all, right? And the idea is that we will create the operating leverage and challenge the generics and also the technology and chemistry platforms are looking at some of those opportunities as mentioned by you.

Abhijit Akella So fair to assume that this \$1 billion order book is still largely like maybe 80%, 90% still concentrated on patented products?

Mayank Singhal Yes.

Jayashree Satagopan Yes.

Abhijit Akella Okay. And just one last thing ma'am. Here the order book has been growing, but the revenue growth has not really come through in the last 2 or 3 years. So is there flexibility for the customers to sort of demand re-scheduling of the shipments, or is there a take or pay contract that we operate under, how does that work?

Mayank Singhal Well, none of this is, obviously, there are some delays of the seasons of some regulatory issues, but the order remains in the hand of the company. It may be a one quarter or a two quarters shift of the demand depending on the seasonalities in those other areas. But eventually, the order book and the product portfolio is growing, so hence the order book is getting larger on that account. But as you would see, the growth of this business is still -beating the global growth rate and that is purely indicated by saying that newer things are bringing in the growth.

Moderator Thank you. We have the next question from the line of Kartik Mehta from Canara Mutual Fund. Please go ahead.

Kartik Mehta Coming to the point that you made a statement that from second half onwards, your export growth momentum is to resume considerably given the revival in global agrochemical cycle. So when you say growth momentum to resume, what does it mean, it would be in line with the historical rate of 20% sort of a growth rate?

Mayank Singhal No as we have indicated for this year, we have indicated about 10%, that is where we will be.

Kartik Mehta So 10% is that the full year average where you have a weaker first quarter, so naturally your second half has to be far higher to compensate the number to 10%, is that right?

Mayank Singhal Sure.

Kartik Mehta Okay and why would you say that from second half onwards, you're looking at global agro cycle revival, any color more on that if you can just explain?



- Mayank Singhal** Yes, if you look at the two things that is happening for these products that you see previously are, there have been certain slowdown in that offtakes. So the inventories are clearing up. On the other hand, certain prices are firming up and the demand for the new generation products is further going to start up, because the companies are also focusing to push these into the markets to shore up their value creation.
- Kartik Mehta** Okay and just to continue with the question asked by Abhijit earlier, that generally, we look at the order book business, in any business where the order book is there, that defines order book where there is a growth in order book as well, that there has to be some uniformity into the execution side and hence there will not be any volatility beyond a point, like what we saw in the first quarter of this year. So I can understand that it depends upon phases, sometime, product mix is that, you know that sometime typically not in favor and hence your growth might be moderating, but sort of degrowth given a global agrocycle being in limbo, so it clearly indicates that the clients are either deferring a lot and are they saying that wait for some time for more data validation?
- Mayank Singhal** Yes, so I would clarify that to you, that we had already indicated the order book doesn't run a quarter-to-quarter basis in terms of offtake. But if you will see the productivity and production carries on, now the question is, we are very, very clear that this was as per plans, means that this was a demand for this year next quarter will be a certain level of demand, as sothe quarter after. So it depends on the offtake and that if I were to explain that as a smaller piece, as one example of the reason for this product, the order book is there. Sometimes it will be upfront, looking at their capacities for formulation or when they want to stock and where they want to stock and how they want to stock, so that's why, as we had already indicated earlier that in this quarter, what we were expecting and we were in line with our expectation. So while there is not a risk, there has not been such a aggressive slowdown as far as we are experiencing and seeing, but yes, there has been a certain slowdown, which we have already factored in and therefore, we have already said that we are in line with that.
- Jayashree Satagopan** And one other thing that needs to be noted is the order book is not for one year, as we had clarified earlier, the order book is for a longer period in time.
- Kartik Mehta** So ma'am, if you can just explain the duration, because we have never said that as well.
- Jayashree Satagopan** No, we had clarified.
- Mayank Singhal** The order book position is ranging between 3 to 4 years, depending on the contracts with the customers.
- Kartik Mehta** Alright. Fair enough. And in terms of currency appreciation, the rupee appreciation, what is our arrangement with the clients and how are we tackling this?
- Mayank Singhal** As stated in the past, we already have a pretty well pass through and balanced approach of working with our customers.
- Kartik Mehta** Right. So that pass through is after certain threshold, right or it works in a very dynamic fashion?

Mayank Singhal There are different understandings with different customers.

Kartik Mehta Okay. So beyond a point, it shouldn't bother us, that is why?

Mayank Singhal Yes, beyond a point, it should not bother, because, you know, it is well protected to the company.

Kartik Mehta Okay and on the domestic front, are you seeing the kind of restocking happening or the business is lost, so I mean, how much would be the percentage of restocking as a percentage of the destocking would happen?

Mayank Singhal Very clearly in the first quarter, we had very clearly supported our customers and ensured support to them with GST fund and definitely saw a huge de-stocking situation taking place and right now as the season is on, we will see by the end of this quarter what has been the seasonal impact, but restocking and destocking will be subject to the seasonal offtake in this business. So stocks are being picked up and the seasonal movements will define the stock levels in the market.

Kartik Mehta Alright, and any color on the NOMINEE GOLD vis-à-vis competition, are we still holding the market share?

Mayank Singhal Yes, I can clearly say that PI continues to hold this market share and really happy to say that product quality and price differentiation have been established and as a company, we are happy with our progress in our brand Nominee.

Kartik Mehta Okay. Sir one last question on a global front that, you said that there has been an increase in the inquiry levels. Is that something to do with geopolitical tension, which is going on with let us say China and Japan and given our strong forte and relationship with Japanese companies, are we seeing incremental market share getting shifted towards India or any other country for that matter, is that something to do with that as well?

Mayank Singhal As you would see, as you mentioned earlier, there are a couple of challenges, which are taking place in the world, one is the consolidation. PI has a very established relationship with these companies, so they also look at how we can support on that. On the other hand, the Chinese chemical industry is also going through the turmoil. Japan is one part, but PI has now aggressively stepping into the other geographies in United States, where we will be working with some other the companies. So all these issues are supporting us to increases this pipeline and reason PI is the front-runner, is about a well established long-term credibility of already working with these companies and that is as you rightly mentioned, some of these areas are therefore supporting us as a primary partner of choice.

Kartik Mehta Okay and since our balance sheet is pretty in a good shape now, and again your debt equity is 0.05, what is your outlook on a growth CAPEX as well as increasing the distribution is set on?

Mayank Singhal Well, we are very much strong in our distribution today. So we definitely have the CAPEX in place to, which is already, we have made over the last few years to handle the growth that we foresee and we will be looking as to how we further look at creating certain value and one of the initiatives to look at some adjacent businesses in alignment to our capabilities.



Kartik Mehta So any number you would like to highlight for CAPEX number?

Jayashree Satagopan CAPEX, last time we have given a guidance of about Rs. 150 crore for the year.

Moderator Thank you. We have the next question from the line of Trilok Agarwal from Birla Sun Life. Please go ahead.

Trilok Agarwal There are a couple of questions. One is on the CSM side, given that, it's been some quarters of muted or lower than anticipated performance, what gives you confidence that we will be actually would return to normalcy in the second half? And second question was more pertaining to the operating margins. We have seen FY17 closed at a historic high margin. So what is your outlook in these two aspects?

Mayank Singhal While clearly in the second half, we do have the clear cut indicated requirements in our stakes, and they are coming into that, as I said, there is also destocking, which is taking place at global company level. So they are also looking to top-up the stocks, and clearly from the cycles they have indicated their requirements for us for the half year, which we have in terms of order book.

So on the back to back basis, we are pretty confident of what we have put out there, right? And in terms of operating margins, the company has been able to deliver them, and we will continue to maintain them, and if not, better them up. And clearly, we are making some one-off kind of investments, for building the capabilities by investing in R&D investments and our strategic initiatives for people, business processes, and hiring global consultants to to make PI future ready.

Trilok Agarwal Okay and, I was just referring to your gross margins, which is probably at multi-quarter high. Was there a mix change or one-off in this quarter or how do we read about this?

Mayank Singhal Obviously there are product mix changes, and also, that also indicates our capability to keep up prices in control, and operate the product cost efficiencies which we are trying to work with.

Trilok Agarwal Okay. And, final one on the order book size, this has also been asked in the previous questions. Our order book ranges from short-term to long-term in terms of delivery. Correct? Now, how do we read about the growth in order book and the sales execution? Like, if you can give a sense, how much percentage of the order broadly is short to mid-term and long-term in every quarter, because we have seen higher order book and a reasonably slower growths in sales, so if you could just help us understand that better?

Mayank Singhal Right. See, the order book typically does not exceed a certain period of more than 4 years, right? So that is the given. Now within the year, obviously, first day will have a higher confirmation in order book position, which is based on and in that the indicator of that, the way to read that is to see that we are creating more business opportunities and booking them up, and therefore building an asset. But the execution is going to happen within the 3-4 years of this order book position.

Trilok Agarwal Okay. So, some orders could also be, but those nature which could be delivered within a year, isn't it?



Mayank Singhal That is obviously, there are orders which are part of the year. The orders for the part of the next year, 3rd and 4th year, yes. And the more orders are for this current year.

Jayashree Satagopan Typically, what happens is for every year, we have an average about 60% to 70% of the year's total numbers as we look at, as confirmed through the order book.

Trilok Agarwal Okay. And, this order book is only been shared to us once you have confirmed order, not in a final stage of inquiry, isn't it?

Mayank Singhal Once we have signed contracts and agreed, that is when we call them order book.

Moderator Thank you. We have the next question from the line of Alok Deshpande from HSBC. Please go ahead.

Alok Deshpande My first question was on your projection that second half this year can pick up. Now, I just wanted to get a clarification on this, whether the 9% to 10% growth you are expecting in the CSM business, is it based on a firm schedule or more about an indication from your clients? Just wanted to get your color, sense on that.

Mayank Singhal Right, majority of it is a firm schedule. Some of these obviously, so they are six months away. So, their schedules will firm up with time, but most of it is on firm schedule basis.

Alok Deshpande Okay, and you too believe that, that schedule is based on the fact that there will be some recovery, globally?

Mayank Singhal To some extent, yes, not all.

Alok Deshpande And Jayashree mentioned about the CAPEX plan of about Rs. 150 crore or so and with this size of order book and growth that you are expecting on a next 4-5 years do you think that CAPEX will need to go up starting FY19 or generally this kind of run rate of about Rs. 150 crore-200 crore is sort of every year is good enough to go hand-in-hand with the growth that you are expecting? I don't want an exact number, but just a sense of how the CAPEX will move.

Mayank Singhal Yes, I will say that the numbers stated would be good enough to the Rs. 150 crore to Rs. 200 crore, you can take that, will be the way to look at, looking at the continuous growth of the business. And, as regards to the order book position, most of these capacities are build up or are being put or are being augmented to further become more efficient. That's where we are, we will be.

Alok Deshpande Okay, so sir Jambusar facility, so based on what it has currently, is there room for that capacity in that site to double from the current capacity or how much land wise space we have there?

Mayank Singhal Yes, we have plenty of enough land along there to double the capacities, if not more.

Alok Deshpande Okay. And, how do you see, I mean, considering that the Q1 had an impact of the destocking on the domestic side, you do think the season, the Kharif season will be, we can end at around 8% to 10% that is what we are forecasting for the whole year, you think Kharif will be also in the similar growth profile this year?



Mayank Singhal Well, we are in the midst of the season right now. So I would not like to put an exact number in that, but definitely will depend on how things picks up, which is expected to be seen in next few days.

Alok Deshpande Okay. Just a last quick one on the margins, considering we had a very high margin expansion last year, and we do expect growth of 10% this year, would you think that there will be some operating leverage driven margin gains this year also or are we being conservative here?

Mayank Singhal I would take conservative approach on that, I will not take any aggressive approach.

Moderator Thank you. We have the next question from the line of Nihal Jham from Edelweiss. Please go ahead.

Rohan Gupta Rohan here. Sir, first question is on this break up, and if you can just share it or give some indication in the domestic business, any rough indication of what was the volume drop and price?

Mayank Singhal Well there is, I would not say there is a volume drop or a price right now, an overall prices have been maintained and the prices are not concluded in the first part, as you know, the first part of the year is only about stocking, and none of that has been accounted into the game. We don't have that right now on hand and we are not in that space right now.

Rohan Gupta So, there is not much price drop which we have seen in realization of Nominee Gold, and this maximum de-growth which has happened in the current quarter is mainly coming from the destocking before GST, is it so?

Mayank Singhal Right. Yes, obviously there has been some margin price drops, which have been well accounted as per the plans. But I think, I am very happy to say that we have well kept our value proposition of nominee and the product, and clearly, this is on account of de-stocking, and our management of the GST with our customers.

Rohan Gupta Okay. And so, when you are also guiding for almost 10% growth, I believe it is across both domestic as well as CSM business, while first quarter have seen a pretty much weakness more in a domestic. So you see that by end of the year, you will be able to demonstrate a 10% sort of growth in a domestic business as well, given the price drop, which may happen in Nominee Gold?

Mayank Singhal Yes, sure and that is all taken into account and I am sure we should be looking at the seasons to favor us, and I think we should be in that place. Yes.

Rohan Gupta Sir, my second question more on the strategic front, we have seen that government is focusing more and more on sourcing of technicals or any material from India. And, any company procuring material outside India or imports, they are facing some issues. I think, in the line with you also have, I mean considered putting Bispyribac Sodium plant with, along with Kumiai. Do you see that the trend is going forward for your company as well for putting chemical plants or in-house manufacturing of all the materials which you are importing under the in-licensing arrangement?



Mayank Singhal Well, the key objective of these are very different. And I think PI is well poised to be getting into the manufacturing space with this partnership, and that's I think an opportunity for PI going into the future, with the manufacturing capability and deep understanding of partnerships. And, the Make-in-India approach has more been taken to look at how they can support capacity, which are lying unutilized and that is more in the generic space. And we really don't know how that is going to pan out, but I think PI's position for innovative products and looking at innovative manufacturing gives us even a stronger footing in this approach taken by the government.

Rohan Gupta So going forward I mean that, have you started overseeing any such of a strategy that where, not only just for CSM business, but you will also require CAPEX for domestic manufacturing also?

Mayank Singhal Sure. We are well planned for it, because we will not do it only for domestic purpose, but we will do it at a global purpose if you do manufacturing here.

Rohan Gupta So right now, the arrangement with the Kumiai for manufacturing Bispyribac is only limited to India?

Mayank Singhal Not necessarily. In the beginning, yes. To start with.

Rohan Gupta Okay. And sir, any numbers you can put that, what kind of CapEx you are planning to put in that?

Mayank Singhal I don't have the numbers right now, but it is not substantial, there is not much of a CAPEX in that number.

Rohan Gupta Okay. And just sir last one from my side on the operating leverage, we have seen the gross margin in the current quarter, almost a highest margin that we have ever seen and despite this being relatively weaker quarter in topline. So going forward, when we see the topline growth coming back, there is a scope for significant jump in EBITDA margins if your gross margins remain here or even there is a scope for expansion a little bit. So you have earlier guided for almost 23% to 24% sort of EBITDA margins remaining there long-term basis, do you see that, that margins going forward further seeing some sort of improvement?

Mayank Singhal We will stick to those margins, now as the company taking many initiatives in investments, in terms of leadership, in R&D build outs expenses, for a future ready PI, which would be technology led organization, as you mentioned. So I would say that I would stick to those numbers as you mentioned.

Rohan Gupta And any development in pharma business, sir?

Mayank Singhal We are in the process, in advanced phase evaluation and well, we will soon come out with some outcomes of our strategies on that, although we have already done some work and we already have certain inquiries running on that front.

Rohan Gupta Any definite amount which you have in your mind as of now to put in pharma business in CAPEX over next one year?

Mayank Singhal I would not want to state that right now, till we come off a definite plan.



Moderator Thank you. We have the next question from the line of Ankit Kedia from Centrum Broking. Please go ahead.

Ankit Kedia Just wanted to understand on the domestic front, have we seen any permanent sort of loss of revenues in this quarter, which we probably will not be able to do in the subsequent quarters? So what I want to understand is that in a good season also, are we just expecting sort of a 10% growth throughout the year and secondly also on the maize herbicide that we have launched, if you can give us a little bit color on, what is the size of the opportunity that we are looking at and is there any specific need gap that we are addressing with this particular launch?

Mayank Singhal If I was to take the back question first and then get into the first one, I think, the product has a pretty good potential for some of the escapes that are taking place in maize. So this is just a launch phase and we just started the product and we see a good potential of this product going into the future. And as you know, we just put the product into the market, the season is on right now for us to evaluate and see the performance of the product, I think the initial evaluation and responses indicates that the product has good performance. Regarding the permanent losses, I did not get that question too well. I mean, what is the meaning of permanent loss in the first quarter, because usually in the first quarter in this business, it is all about placement and stocking. Performance of the businesses is seen in the second and third quarter.

Ankit Kedia No, so I was basically coming from a point that when the monsoons and all have been good, is 10% growth in the domestic business, are we being a little conservative on that side or you could see a much better sort of an off take maybe towards the second half of the year in this?

Mayank Singhal Well right now, if you look at the crop prices, you look at the issue that the monsoon is good overall as a general practice, but the uniformity and the distribution of monsoon in the key areas and key crops is also important. So we would not like to take a very aggressive statement on that, what I would say is the situation of the agro climatic conditions and the crop position, because a lot of these stocks and prices are down. That in fact when it corrects, then we can have a better outlook of that.

Ankit Kedia And on the margins front, what amount of margins would be a one-off. I mean, can you quantify that in this quarter, which might be in the form of higher fees to the consultants and maybe some support given to the trade channels?

Mayank Singhal Well, I don't have the exact number in front of me, but they are substantially enough to put that, they been one-offs.

Ankit Kedia Okay. So the decline we can say that the large part of it can be considered as one-offs in this?

Mayank Singhal Yes and because you also further invest in building overheads in terms of R&D capabilities in the future. The large pipeline of inquiries and things are coming up, so more investments are going into R&D to ensure a greater future.

Ankit Kedia Okay. And lastly on the export front, just to understand, we also supply on the early stage development of molecules so, are we seeing delays in the R&D programs of some of these companies also, as a result or is it only on the commercialized



products side that we are seeing delays in offtakes happening on the overseas business?

Mayank Singhal Actually, I am not seeing a delay in the offtake, they are probably in a hurry because they want to question them, quickly going off the count to get a better return of what is already sitting in the pipe. So I think we see a good opportunity there.

Moderator Thank you. We have the next question from the line of Karishma Kothari from ICICI Prudential Life Insurance. Please go ahead.

Karishma Kothari We have been hearing about Government introducing price control in the agrochem side, so what is our take on it, how could that impact our industry and what level of price control is expected from the Government?

Mayank Singhal I think that has been a suggestion which has been put, but there has been no concrete plans around it and I think before getting into that, they need to have a lot of policy and positional changes that will need to take place. And what is their objective of price control, because if you look at the agrochem as a percentage, it is a very small percentage of total value of input and whether it comes in the essential commodities and other challenges, which none of those plans have been firmed up, this is just a question that has been put in the air and unlike the pharma or the other areas, the agrochem sector has many options for the same disease and problem. So it is not something that is going to be so simple and straight to operate and I need to very clearly first look at the idea that is being floated, what is the specific approach they want to take. So that is where it stands now and a lot of debate is going on about this in the industry and the Government. So it is going to be a little bit tough one to get through.

Karishma Kothari So do we expect this to take place more on generics first and then on the branded?

Mayank Singhal You see, I don't think the Indian Government is really clear in looking at IP protection and driving value for IP for global companies. So what approach and how they want to take would be completely dependent on how they want to look at the consumer. And I don't think for that they are going to shorten the path for the innovators to bring in newer technologies which could further value add to customers.

Moderator Thank you. We have the next question from the line of Aksh Vashishth from Motilal Oswal Financial Services. Please go ahead.

Aksh Vashishth My question is on the JVs and tie-up front. If you could quickly touch upon the updates there and what are the plans there? Going forward, are we expecting much more tie-ups? And also if you could touch upon what kind of revenue share are we expecting from such tie-ups going forward?

Mayank Singhal You are talking about the JV with Kumiai?

Aksh Vashishth Yes, and BASF also.

Mayank Singhal I can't get to the specific revenues, but clearly yes, we expect a substantial revenue, JV with Kumiai is a first step to looking at bringing the Nominee Gold molecule for manufacturing in India and augmenting that and further growing the



revenues to capture the larger share and continue to keep the share in the market or the expanding market and then to look at future pipeline of the products which come with a differentiated approach and a partnership approach. So this is the first step and we see a long term greater value for getting and fitting into our strategy across the agri value chain. In terms of BASF, these are like any other products and pipelines. We continue to look at these products, we will be taking on more such approaches with companies, which will further augment our products and the gap in our portfolio and we see these to be a substantial stake of our revenue going into the next 3-4 years and a well distributed approach for multiple products in our basket of sales.

Moderator Thank you. We have the next question from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah Based on the size of opportunity, our order book, our ability in the complex chemistry and the kind of client relationships we have, the long-term goal of over 20% growth, remains intact, I hope.

Mayank Singhal Yes, 15% to 20% growth for long term remains good, but as you would have seen, the agri business globally has its own cycles and I do believe that the changes in the global market in terms of consolidation is going to create further opportunities for business models and partnerships like ours, because companies would be looking further outsourcing partner to grow the topline with less risk.

Bharat Shah Right. So I think that trend actually should favor an innovator partner, working on complex chemistry, actually PI even more?

Mayank Singhal Right, so that is the reason PI has taken an aggressive call on its R&D investments and has started to put a great investment, started operations where we will be building chemistry and process led capabilities to create unique partnership models to further value add to a customer, keeping in line with such thinking.

Bharat Shah Okay. Thank you. And for Jayashree one question, what is the expected tax rate for the current year?

Jayashree Satagopan Tax rate, we are expecting around 20% to 21% for the full year.

Bharat Shah So similar to last year?

Jayashree Satagopan Last year was lower, this year is going to be on the higher side.

Bharat Shah Last year was how much?

Jayashree Satagopan We were around 14% to 15% last year.

Bharat Shah Okay. So it will be materially higher this year.

Jayashree Satagopan Yes.

Moderator Thank you. We have the next question from the line of Afshan Syed from Dolat Capital. Please go ahead.



Afshan Syed Just wanted to check on the two product launches, which you have mentioned in the press release, if you can highlight on that?

Mayank Singhal Well, there are fungicides which has just gone into the market now. They are going to be further filling the gap that we have in the portfolio. They are specific to certain diseases in the rice segment and we expect, that which is the gap that we added going to be a part of our sales coming in this quarter.

Afshan Syed Okay. So it's apart from the HEADER and FENDER.

Mayank Singhal The two fungicides are HEADER and FENDER.

Afshan Syed Okay, so apart from this, are there any more launches?

Mayank Singhal We have got 'Elite' and we have a one more product which is going to be coming up in the later part of the year.

Afshan Syed Okay and that will be a Section 9(3) product?

Mayank Singhal Yes, these all are new generation patented products.

Afshan Syed Okay. And these three products are with BASF, under the co-marketing arrangement?

Mayank Singhal Correct.

Afshan Syed And secondly on the changing regulations, particularly on the import restriction, so I mean how are we placed in terms of that, so are we seeing any threat because we may not be able to I mean, there will be a restriction in the quantity import part?

Mayank Singhal Well, this year all this has been under discussion, nothing has been firmed up. And these are new generation products. I don't see the quantity and the detailed part of restrictions driving these issues and that is going to be applicable to all segments of the agchem business and the restrictions will be driven whether they are multiple and higher number of quantities of products which are there from our single generic kind of a product. So these are still not firmed up in the Government, they are still under discussions.

Moderator Thanks you. We have the next question from the line of from Ranjit Cirumalla from B&K Securities. Please go ahead.

Ranjit Cirumalla In the opening remarks, you did say that you have supported the dealers, so was there cost to that?

Mayank Singhal There is a proposal, there is no cost. We support the dealer in terms of looking at how do we help them get into the system of GST. So there has been no cost so far on that, that means we are getting them supporting into the GST, helping him get into that, putting service teams and resources to our customers to support that. That is what I was indicating then.

Ranjit Cirumalla You see the other expenses for this particular quarter, it was around Rs. 88 crore, just a 4% growth over the last year and you have also said that there would have

been a one-off kind of an expenditure in this particular quarter. So if you actually adjust that, then the other expenditure would have declined. So just wanted to understand what is driving this decline?

Jayashree Satagopan Okay. What you are looking at is other expenditure compared to last year Rs. 84 crore to Rs. 90 crore, right?

Ranjit Cirumalla Yes.

Jayashree Satagopan That is what you are talking about a 4% increase. What Mayank had indicated earlier is overall expenditure, not necessarily in other expenditure, where we had for this year, included certain global consultants who are guiding us on some strategic growth path for us, our increased expenditure in terms of R&D during the year are, specially with a focus on the technology and innovation. These two are there. You would also see that there has been an increase in the employee cost as well because we are adding up the bandwidth and the leadership to handle the future strategic growth plans of the company. So if you put all of these together, this means an increase during this quarter, especially with this global consultants that we hired.

Ranjit Cirumalla I think the consultant charges would be more on the other expenditure side, right?

Jayashree Satagopan Yes.

Ranjit Cirumalla And my second question would be, we have seen rupee appreciated during the quarter. So was there any impact in terms of financial gain or loss for this quarter?

Jayashree Satagopan No. On a quarter-to-quarter basis, we have some exchange gain that keeps accruing to us. As we have explained to you in the past, the Company has a Board Approved Hedging Policy and hedges are taken in accordance with the policy that that has been there.

Mayank Singhal And as you know from a business model, there is always a passthru understanding the customers.

Ranjit Cirumalla And, lastly on the BASF tie-up, we have got into a co-marketing arrangement. So I believe that BASF would also have launched the products in India in the Kharif season. So is there any exclusive region-wise we have an understanding or we would be marketing in the same area where BASF is also doing it?

Mayank Singhal No, the BASF as you would see in earlier closures, PI has a very strong foothold in the rice market where BASF stands so far lesser than PI's historically. So they have looked at PI as a strategic partner for this crop and segment because of our strengths. So we do believe that we will be in a good position to get into these markets and perform.

Ranjit Cirumalla So which are the markets that are stronger than Northern region?

Mayank Singhal These are the markets of the rice segment.

Moderator Thank you. We have the next question from the line of Sunil Kamath as an Individual Investor. Please go ahead.

- Sunil Kamath** I am an individual investor and an engineer from IIT Bombay. As you have stressed on technological innovations to enhance profits, would you consider implementing full-fledged optimization solution for process control as well as supply chain optimization including production, inventory, demand forecast and distribution control, as we have done in other chemical and FMCG industry?
- Mayank Singhal** Those are already in play at PI. We are talking about a process technology in terms of manufacturing and finding better ways of doing the same thing. And when we talk about chemistry platform, it's finding block builders, where we could look at, how we could leverage ourselves. So those optimization tools are very well already running in place. We have one of the most automated process optimization capabilities in the system from an automated DCS-controlled system.
- Moderator** Thank you. We have the next question from the line of Ritesh Gupta from Ambit Capital. Please go ahead.
- Ritesh Gupta** Just on domestic business side, from a long-term growth driver perspective, I mean you have NOMINEE GOLD and OSHEEN which probably would be large chunk of sales, could you just give us sense in terms of as, say some of these molecules mature or some of these products mature, what kind of next growth drivers you have probably in terms of let's say KEEFUN for example, how these products are doing and how is the traction building from these products?
- Mayank Singhal** Well, the new products introduced are now into the season, some are going to come in to the later stage of the year. And clearly we are very happy with the growth rates of this season where we have. The last three years have not been very conducive for the growth of the new generation products because the agro-climatic condition and water conditions in the Southern Peninsula. But clearly, as I see going forward, we are getting more and more new products and they are going to be a fairly large potential to equally and better distribute the larger brand portfolio of PI.
- Ritesh Gupta** And just to understand the gross margin drivers better, is it a mixed thing, or is it like a mix within domestic within CSM, I mean, just if you could shed some light on what have been the drivers of gross margin and how should we look at the bottom, because we have seen substantial gross margins over last few years, while your other expenses and your employee costs have increased, gross margins have clearly expanded materially over last few years. So is there a kind of raw material tailwind or a power and fuel tailwind that you have seen or is it like sustainable gross revenue, the gross margin will continue to expand, how should we think about it?
- Mayank Singhal** These are backed by a couple of issues, one is to say about the product mix, the other is to say that, so a constant focus in looking at improving the efficiencies and the cost of our products. And that is again the areas of process technology areas and others as where we are working and we are moving in that direction. So these are continuing to be an effort area for us as expenses to catch up.
- Ritesh Gupta** But is it that inherently you are able to charge much better in your CSM business than what you probably could charge it is equally as that?
- Mayank Singhal** No, I would not say that.



Ritesh Gupta Okay and so given the order book increase and then I think one of the participants asked this question earlier. Is there an increase in CAPEX that we should assume or expect going forward?

Mayank Singhal No, as we have mentioned that we will continue to keep that band of CAPEX whether you will balance the CAPEX, or do you want to know position, the quality of revenue and already a lot of CAPEX is in place to support most of this revenue just coming up, the new CAPEX will be coming for the strong pipeline, this is under evaluation and the order book that we build around that.

Moderator Thank you. We have the next question from the line of Ritika Jalan from Narnolia Securities. Please go ahead.

Ritika Jalan The CAPEX outlook that you have given, can you give any further split of the CAPEX?

Mayank Singhal What do you mean by the further split? CAPEX should be basically plant equipment and machinery.

Ritika Jalan Capacity addition?

Mayank Singhal Well, the capacity is not linear in this business. And so there is no specific capacity you can say yes, we are building capacities. But I cannot say we will be adding 100 tonnes or 200 tonnes but there will be obviously all the CAPEX majority will be going towards expansion of capacities and capabilities.

Ritika Jalan Okay, can you tell me the rate of product addition or dilution in the domestic space?

Mayank Singhal Deletion, I didn't get your point.

Ritika Jalan What is the rate of product addition in the domestic, say as in a particular year?

Mayank Singhal Well, as we said, for this year, we will be adding about 5 new products in our pipeline.

Ritika Jalan Okay and what about next financial year?

Mayank Singhal We are looking to add another 2-3 new products.

Moderator Thank you. We have the next question from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar Just a hypothetical question, let us say if the technical import restrictions comes into play a year or two later, and we have spare capacity in our SEZ plants, is it easily possible to say, I mean, assuming that, we see good margin delta in some of the products. Can we produce and manufacture and sell in the domestic markets, or we need elaborate approvals by CIBRC to do this short term change?

Mayank Singhal Sure, I mean as the Government changes policies and they want to fuel domestic production, they will also change the policy to find a quicker way of wanting you to



let you do that. So it can support those and are flexible and adaptive to change plans through multipurpose production, is not a challenge.

Vishnu Kumar

So we can directly do that. That's not a big challenge on that side?

Mayank Singhal

Yes.

Vishnu Kumar

Okay, so the second question, just wanted to understand the current utilization of a phase 3 plant which came up sometime in the last year, is it fully running or what is the utilization levels there?

Mayank Singhal

I don't have the exact detail, but they have started and obviously the utilization is expected to ramp up over the next 2-3 years, but the production has started and we are happy with the outcome of the productivity and efficiency of that plant at the moment, but utilization is not that weak.

Vishnu Kumar

Okay and what about a Phase IV plant we were expecting it to come somewhere in the end of fourth quarter '18 and just wanted to understand, is it still completed or is it part of the Rs. 150 crore CAPEX because as far as I understood, it was already part of your FY17 CAPEX.

Jayashree Satagopan

Vishnu, this is part of the current year CAPEX plan. So it is progressing as per our plan, either towards end of the year or maybe early part of next year, this will get operational.

Vishnu Kumar

Okay, so there is \$ 1 billion order book is it completely for the first 3 phases or we also have some part of it coming in for the Phase IV?

Mayank Singhal

Well, the order book position is for total products, it is not based on expansions, so looking at the order book, we look at our asset and then we build the map accordingly to support that order book.

Vishnu Kumar

So this is only up to Phase III, if then?

Mayank Singhal

Yes, I think, I would not say Phase III, Phase IV is aligned to an order book, it's aligned to business needs and requirements.

Moderator

Thank you. We have the next question from the line of Abhijit Akella from IIFL. Please go ahead.

Abhijit Akella

Just a couple of quick clarifications on the 3 new products you have mentioned ELITE, HEADER and FENDER, is it possible to share the AI names for each of those?

Mayank Singhal

Pardon?

Abhijit Akella

The active ingredient names for each of those products?

Mayank Singhal

They are combination products, I mean, I don't have them right now in my hand. They unique combination products. I will just get back to you. We will get that offline to you.



Abhijit Akella Okay. And second just a trigger to the consulting project that you talked about, has it just begun this quarter and therefore will it continue for maybe 3-4 quarters and therefore we see some more margin impact over the rest of the year?

Mayank Singhal It has just begun this quarter.

Abhijit Akella Sorry sir, I just lost how many quarters did you say it will continue for?

Mayank Singhal It will be for the next three quarters.

Abhijit Akella Okay and specifically are they advising us on new product opportunities or new market entry opportunities, I mean like let's say pharma or fine chemicals or something and is it within custom synthesis or domestic? What is it?

Mayank Singhal As you know, this is all strategic initiatives. So we will like to keep that under wraps now.

Moderator Thank you. We have the follow up question from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah How much of R&D is really long-term capability enhancing kind of R&D and how much of the R&D, typically is for projects that are visible or the projects for which there is an order book which is built. In short, how much of R&D is a kind of a capability booster and how much is more functional R&D?

Mayank Singhal Yes, so if you look at historically, it was more from a capably driven point. And therefore, we have now highlighted that we are now moving towards more strategic development of R&D and having established ourselves as a well-established technology led company in the businesses of the way we have been running them. I mean the SKU is now, we have about 50/50 or 60/40 towards the operational and towards the strategic being the second part of the rationale.

Bharat Shah So about 60 is operational and about 40 is?

Mayank Singhal And 40 is because we will further pushing that up to grow our business, to create newer pipelines.

Bharat Shah And on a more longer-term basis, what would in your opinion be roughly percentage of turnover on R&D, both operational and strategic?

Mayank Singhal We are looking at 2% to 3% on R&D minimum.

Bharat Shah Okay and of that 2% to 3%, how much typically would be revenue kind of R&D and how much would be, which will be sitting in the balance sheet?

Mayank Singhal Well I have not got that exactly in front of me, but I can get that to you offline.

Moderator Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you.



Management

Thank you everybody for participating. We look forward to speaking to you over the next quarter. Thank you.

Moderator

Thank you very much. Ladies and gentlemen, on behalf of PI Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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